

# **How Does Inclusionary Housing Work? A Profile of Seven Southern California Cities**

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### **Introduction**

Inclusionary housing (IH) policies require developers to reserve a certain percentage of housing units for very low, low, and moderate-income households in new residential developments. Over 20% of the jurisdictions in California have adopted IH policies in the form of a local ordinance or General Plan policy.

The Southern California Association of Non Profit Housing (SCANPH) researched 7 Southern California cities that have implemented IH (Brea, Irvine, Oxnard, Pasadena, Port Huemene, San Clemente, and Santa Paula) to get information about the productivity of their policies. We analyzed the inclusionary zoning codes for each of these cities, and spoke directly to city planners and local developers to get an in depth understanding of the specific planning, landuse, and political factors that influence the productivity of the inclusionary housing ordinance in each city. We also looked at how population, land availability, and overall housing development influence the productivity of the inclusionary housing in these cities.

The three major findings that came out of this research are: 1.) IH has not reduced overall housing construction in the cities we studied. 2.) Inclusionary housing policies are effective in producing affordable units that would not otherwise be developed and in providing funding for affordable housing that would not otherwise be available. 3.) Factors that influence the effectiveness of IH in a jurisdiction include: growth in population and development, land availability, landuse trends, the contents, stringency, clarity and accessibility of an inclusionary housing policy, and staff support and political will.

The 7 cities we surveyed vary greatly in population, total number of housing units, and land area.

**Table 1: City Profile – Population, Size of Housing Stock, and Land Area**

City	Population, 2003 estimate	2000 Population	Population, percent change, 2000 to 2003	Housing Units, 2000	Land Area, 2000 (sq. mi.)
Irvine	170,561	143,072	19%	53,711	46
Pasadena	141,114	133,936	5%	54,132	23
San Clemente	57,768	49,936	16%	20,653	18
Oxnard	180,872	170,358	6%	45,166	25
Brea	37,889	35,410	7%	13,327	13
Santa Paula	28,879	28,598	1%	8,341	5
Port Huemene	21,845	21,837	0%	7,908	4.45

Source: U.S. Census Bureau State & County Quick Facts - [quickfacts.census.gov](http://quickfacts.census.gov)

## Inclusionary Housing Does Not Reduce New Housing Construction

IH has not reduced overall housing production in the cities we studied. As seen on Table 2, five of the seven surveyed cities have exceeded their Regional Housing Needs Assessment (RHNA) for the 1998-2005 planning period despite their inclusionary housing requirements. Also, according to staff in the surveyed cities, overall housing development has remained constant since IH was implemented.

**Table 2: The Affects of Inclusionary Housing on Overall Development**

<b>City</b>	<b>New Housing Units Produced 1/1998-6/2004</b>	<b>RHNA Total Construction Need</b>	<b>Building Permit Issuance as a Percent of Total Construction Need</b>
Irvine	18,905	10,782	175%
Pasadena	3,284	1,777	185%
San Clemente	4,788	2,719	176%
Oxnard	3,298	5,083	154%
Brea	1,311	1,052	125%
Santa Paula	107	1,393	8%
Port Huemene	152	254	60%

Source: SCAG Housing Element Compliance and Building Permit Issuance in the SCAG Region, September 2004

One of the main arguments against IH is that it leads to a decrease in new housing production. However, this claim is virtually impossible to prove without considering all of the factors that influence a city's rate of housing production (including population, land availability, the strength of the local housing market, and landuse trends).

For example, of the 7 surveyed cities, Irvine has developed the highest number of housing units from 1998 to 2004. Irvine also has the largest population, the highest level of population growth, and the largest land area (See Table 1). In addition, according to Table 3 Irvine has annexed land and rezoned a lot of land from industrial to residential, which has allowed for more development. Pasadena, which has also seen a high amount of development from 1998 to 2004, has a large population and land area. At the same time, Pasadena has rezoned land for residential uses and has also done a great deal of higher density infill and mixed-use development.

Both of the cities that are not meeting their housing needs, Santa Paula and Port Huemene, have a low population, a low rate of population growth, and relatively low total land area (See Table 1). In addition, Port Huemene is built out, making housing production very difficult, and the City of Santa Paula has implemented a slow growth promoting Urban Growth Boundary.

**Table 3: Landuse Trends**

<b>City</b>	<b>Landuse Trends</b>
Irvine	Irvine has annexed land and rezoned a lot of land from industrial to residential, which has allowed for more development.
Pasadena	Pasadena is currently focused on developing its central district. Occasionally small plots of land are rezoned from non-residential to residential uses.
San Clemente	San Clemente is currently focused on increasing mixed use development and identifying the best locations affordable units and condominiums.
Oxnard	N/A
Brea	A lot of land in Brea is privately owned, and the City has to negotiate with land owners in terms of development.
Santa Paula	The City of Santa Paula approved an Urban Growth Boundary, which promotes slow growth in 2000. Currently the City is focused on improving old housing stock and is planning to annex land in the future.
Port Huemene	Port Huemene has experienced low housing production because it is completely built out. The City has 23 acres of vacant land of which only 3.5 acres are zoned residential. Most development in Port Huemene is infill.

## **Inclusionary Housing Works in Producing Affordable Units**

IH has helped to produce affordable housing units that would not otherwise be produced in most of the cities we looked at. The average number of inclusionary housing units developed in the 7 surveyed cities is 294 units overall and 51 units per year. The highest producing city is Irvine, with an average rate of 200 units per year. The lowest producing cities are Port Huemene and Santa Paula with 0 total units.

**Table 4: Number of Inclusionary Units Produced per Year**

<b>City</b>	<b>Year Mandatory IH was Adopted</b>	<b>Total IH Units Produced</b>	<b>Average Units Produced/Yr.</b>
Irvine	2003	400	200
Pasadena	2001	341	85
San Clemente	1980	1,077	43
Oxnard	1999	90	15
Brea	1993	150	13
Santa Paula	2004	0	0
<b>Average</b>		<b>294</b>	<b>51</b>

\*In 1977 the City of Irvine implemented a voluntary affordable housing program that helped produce over 4,000 units of affordable housing. The City adopted a mandatory inclusionary housing ordinance in 2003, which has produces 200 affordable housing units over the past 2 years.

Because the number of affordable inclusionary housing units developed in these sample cities varies so greatly, the above averages do not accurately represent the average number of inclusionary units that they have produced. As with overall development, there are a number of factors to take into account when considering the number of inclusionary units produced in each individual city. There are special circumstances that contribute to the success or lack of success of IH in the cities we researched. For instance:

- The City of Irvine has highest the number of inclusionary units produced (200 units per year) because the City's objective is to have developers build affordable units, and this fact is reflected in their clearly defined IH policy. Irvine is the only city where the inclusionary requirements apply to all residential developments, regardless of the development size, and projects with 50 units or more are required to build units on-site. (See Table 6). In addition, there is strong political will and support for the policy among the local government. The City also has a unique relation with the Irvine Company, the major developer in the City of Irvine, which has allowed them to get such a large number of affordable units built.
- The City of Santa Paula has not produced any inclusionary units. This may be due to the fact that overall housing development is low in Santa Paula, which has only met 8% of its RHNA (See Table 2). Also, because the City's ordinance was recently adopted in 2004, it is too early to judge its effectiveness.
- Since Port Humene's mandatory inclusionary housing ordinance was adopted in 1999, no developers have actually developed any inclusionary units. Developers are allowed to pay the in-lieu fees at all times. In addition, all inclusionary requirements may be waived at the City's sole discretion, if the applicant can prove that they will render the project infeasible. Port Huemene's IH ordinance has been ineffective in producing units because it is not strongly enforced.

## Inclusionary Housing Provides Funding for Affordable Housing

Inclusionary housing policies provide a major source of funding for affordable housing. For example, the City of Pasadena has collected over \$9 million in in-lieu fees.

**Table 5: Funds Generated from In Lieu Fees**

City	In Lieu Fee (per unit)	Total In-Lieu Fee Funds	Where do In-lieu Fees Go?
Irvine	\$12,471	\$3.3 million	Affordable Housing Trust Fund - funds are used for the production of affordable housing
Pasadena	Scale: a range of charges based on square footage, rental vs. for sale units and municipal sub areas	\$9.5 million	Affordable Housing Trust Fund- funds are used to create affordable housing
San Clemente	\$5,000	\$4 million	Affordable Housing Trust Fund
Oxnard	\$4,578	\$8.6 million	Housing Trust Fund
Brea	Formula: difference between median home price (City of Brea) and affordable home price (Orange County)	\$750,000	Affordable Housing Trust Fund - intend to use in-lieu fees to finish up downtown revitalization/mixed-use development
Santa Paula	Formula: difference between market rate home and	\$0	Funds will go into an Affordable Housing Trust Fund
Port Huemene	\$13,670	\$314,410	Neighborhood Preservation Program: housing rehabilitation, down payment assistance, IDAs)

\*Another \$7,171,023 is due for 6 approved projects at the time of building permit issuance.

There are various methods used to determine the in-lieu fee charge per unit. As seen on Table 5, some cities charge a set amount per unit while others base their fee on a formula. Most of the cities put the funds collected from in-lieu fees into an affordable housing trust fund that is used for the production of affordable housing.

## Factors That Influence the Effectiveness of Inclusionary Housing : Part 1

The common elements of an inclusionary housing code are: applicability, set-aside requirements, income targeting, and alternatives and incentives. The structure and details of these code elements can have a big influence on the effectiveness of IH in a jurisdiction.

### Code Structure:

- **Applicability:** Most inclusionary housing policies apply to developments with a certain number of units and above. The specified number of units varies greatly among the 7 surveyed cities. In Irvine all residential developments are required to provide affordable units whereas, in Brea, only developments with 20 units or more are required to do so. Santa Paula's ordinance applies specifically to costal developments with 10 units or more.
- **Set Aside Requirements:** Set aside requirements, the percentage of units that must be reserved for affordable housing, ranges from 4% to 25% among the surveyed cities. Although one would assume that cities with higher set aside requirements would be apt to produce more inclusionary units, this is not necessarily the case. For example, San Clemente and Brea have low set aside requirements yet their IH policies have produced more affordable units than Port Huemene which has a set aside requirement of 25%. Some experts say that a set a side of 20% is not feasible in most cities.
- **Income targeting:** Income targeting is extremely varied in the codes we looked at. In San Clemente developers only have to set aside 4% of the development for affordable housing; however the entire 4% is reserved for very low income households. Similarly, Oxnard has targeted only low income households. While San Clemente and Oxnard are very specific about income targeting, focusing on serving the population most in need, cities such as Brea and Port Huemene do not allocate their set aside requirements to any particular income group.
- **Alternatives and Incentives:** Some of the surveyed cities offer a wider variety of on-site development alternatives and incentives than others. According to a recent study by the Non Profit Housing Association of Northern California and the Home Builders Association of Northern California, entitled *On Common Ground: Joint Principles on Inclusionary Housing Policies*, in order to increase effectiveness and efficiency, inclusionary housing programs should provide flexibility and allow a range of alternative methods of providing affordable units. A copy of this study is included in Appendix 1. Also, it is important that incentives are creative and truly useful to the developer. For example, The City of Pasadena (which has very high residential impact fees) offers allows applicants who develop units on-site to pay drastically lower impact fees for the affordable units.

**Table 6: Code Structure**

City	Applicability	Set Aside Requirement	Income Targeting	On Site Development Alternatives	Incentives
Irvine	All residential developments	15%	5% very low, 5% low, 5% moderate	In lieu fee, land donation, off-site development, conversion of market rate to affordable, extension of affordability	Development standard flexibility, fee waivers, monetary assistance
Pasadena	Developments with 10 units or more	15%	10% low and 5% low or moderate income (rental units only)	In lieu fee, off-site development, land donation	Fee waivers, density bonus, financial assistance for projects that exceed 15% set aside requirement, reduction in impact fees
San Clemente	Developments with 6 units or more	4%	Very low income households	In lieu fees, off-site development, land donation	Development standard flexibility, monetary assistance
Oxnard	Developments with 10 units or more	10%	Low income households	In lieu fee, off-site development, land donation	N/A
Brea	Developments with 20 units or more	10%	Not specified	In lieu fee	Density bonus, development standard flexibility, fee waivers, building code alternatives, fund application assistance, redevelopment set-aside funds
Santa Paula	Costal developments with 10 units or more	25%	15% low, 10% very low	In-lieu fees	Fee waivers
Port Huemene	Developments with 10 units or more	25%	Not specified	In-lieu fees	Flexibility in development standards and design requirements, fee waivers, expedited permit process

## Factors That Influence the Effectiveness of Inclusionary Housing : Part 2

### Code Clarity and Accessibility

Many IH experts agree that IH policies that are clearly written and user friendly are more likely to be successful. Policies that are only mandatory, based on feasibility tend to be unclear and weaker than straightforward policies that apply to all qualifying applicants. Also, according to shared best practices for successful inclusionary housing programs alternatives and incentives should be authorized in the ordinance for the sake of clarity.

Fittingly, the cities with the most successful IH policies Irvine, Pasadena, and San Clemente have firm unconditional IH requirements and development alternatives that are authorized in their codes. Conversely, Brea and Port Huemene, whose requirements are mandatory, dependent on feasibility, have had fairly unsuccessful policies. Furthermore, Brea and Santa Paula both review on-site development alternatives on a case by case basis, and both cities have a low producing IH programs. Although Port Humene is a low producing city that does authorize alternatives in its code, it is the exception because all developers opt to pay in-lieu fees in this City.

**Table 7: Clarity and Accessibility**

City	Stringency of Requirements	Consideration of on-site development alternatives
Irvine	Mandatory	Projects with less than 50 units are automatically provided with on-site development alternatives.
Pasadena	Mandatory, projects with discretionary approval exempted	Authorized in code; must comply with specific regulations
San Clemente	Mandatory	Authorized in code
Oxnard	Mandatory	An in-lieu fee is an option only if the average price of all units in tract is over \$350,000
Brea	Mandatory, dependent on feasibility: unless the city determines the development of the affordable units does not place an economic burden on the developer or future homeowner	Must submit an affordable housing plan for Planning Commission approval
Santa Paula	Mandatory	Reviewed on case by case basis by planning Commission
Port Huemene	Mandatory, dependent on feasibility: all requirements may be waived, at the City's sole discretion, if the applicant can prove that they will render the project infeasible.	Authorized in code



## Factors That Influence the Effectiveness of Inclusionary Housing : Part 3

### Staff Support and Political Will

The final factor that influences the success of an IH policy is the level of support coming from city staff and politicians; even community members and developers. Staff and city council members in all 7 cities support inclusionary housing in their cities for various reasons including that: it allows their cities to grow wisely, it will meet the needs of the community, and it helps balance development.\* Specific accounts of support are as follows:

- **Irvine:** Staff told us “In Irvine if developers don’t agree with the affordable housing policy they can go build elsewhere”. Also, the city council and mayor are very supportive of IH.
- **Pasadena:** the City Council was in favor of adopting an inclusionary housing ordinance because they saw that affordable housing needed to be addressed as new developments arose.
- **San Clemente:** In San Clemente, the ordinance came to be due to the presence of development and a big push from civic and community groups who wanted a certain amount of units to be affordable. Also, the city council is very supportive of San Clemente’s Inclusionary Housing Program, and there is not any significant community opposition to it because the policy has been in place for a long time. It is seen as a part of development.
- **Oxnard:** The Oxnard city council and planning department are supportive of the ordinance.
- **Brea:** When Brea’s Affordable Housing Policy was adopted, it had full support from the city council who believed it would allow the City to have balanced development.
- **Santa Paula:** Santa Paula’s inclusionary housing ordinance was staff initiated, and it was also highly supported by the city council and community groups. The ordinance was put in place to meet the growing needs of the community.
- **Port Huemene:** Port Humene’s inclusionary housing policy was staff initiated and was supported unanimously by the city council when it was first put into place.

\*Although all 7 cities verbally expressed full support for its IH policy, political will is more accurately expressed through the contents and stringency of a city’s IH code.

## Sources:

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